

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

January 23, 2006

10:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 10:30 a.m., Monday, January 23, 2006, in the TierOne Community Meeting Room at 1221 N Street, Lincoln, Nebraska.

The Board members were notified of this meeting by letter dated January 13, 2005. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday January 16, 2006. Mr. Peters chaired the meeting and Ms. Linder recorded the minutes.

MEMBERS PRESENT:

CHARLES PETERS, CHAIR
JULIA MOELLER, VICE-CHAIR
DENIS BLANK
ROGER REA
DALE KAHLA
MARK SHEPARD
GLENN ELWELL
CAROL KONTOR, EX-OFFICIO

NONMEMBERS PRESENT:

ANNA SULLIVAN
Director
JASON HAYES
Legislative Retirement Counsel
GARY BUSH
DAS - State Budget Administrator's Office
MARY JOCHIM
Sterling Financial Advisors
BEN MATTERN
Ameritas
DIANE WHITMAN
First National Bank
LISA WEFER
NACO
JOE SCHAEFER
Legal Counsel
JAN FOX

Training Supervisor
NADINE AULT
Training Specialist
JOHN WINKELMAN
Training Specialist
JUDY HALL
Retired Nebraska State Teachers Assn.
ANDRÉ MICK
Legislative Performance Audit Analyst
DON ARP JR.
Legislative Performance Audit Analyst
CINDY NICHOLS
Legislative Performance Audit Analyst
MARVIN KANNE
Retired State Employee
JANE HANSEN
Retirement Plan Supervisor

RANDY GERKE
Accounting and Finance Manager
TERESA ZULAUF

Internal Auditor
SHEILA LINDER
Administrative Assistant

Agenda Items 1 and 2 - Meeting Called to Order: Chairperson Peters called the January 23, 2006, Board Meeting to order at 10:30 a.m. Present at roll call: C. Peters, J. Moeller, D. Blank, R. Rea, D. Kahla, M. Shepard, and C. Kontor. Absent: G. Elwell.

Excuse Board Members: Mr. Blank moved to excuse Sgt. Elwell. Ms. Moeller seconded the motion. Members voted as follows: For: J. Moeller, D. Blank, R. Rea, D. Kahla, M. Shepard, and C. Peters. Against: None. Motion carried.

Introduction of New Board Members: Chairperson Peters welcomed Judge Glenn Camerer and Richard F. Wassinger. The confirmation hearing was held this morning for these two new members and we expect to receive word of their confirmation within a short while.

Agenda Item 3 - Approval of Minutes: Mr. Rea moved that the minutes of the December 19, 2005, Board Meeting be approved. Motion was seconded by Mr. Kahla. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, C. Peters, and J. Moeller. Against: None. Motion carried.

Agenda Item 4 - Approval of Budget Status Report & December Retirement Report: Ms. Moeller moved to approve the budget status report and the December Retirement Report. Motion was seconded by Mr. Shepard. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, C. Peters, J. Moeller, and D. Blank. Against: None. Motion carried.

Ms. Sullivan distributed a copy of a letter that was sent to the State Budget Office in November. One item in the request was to increase the amount of the per diem for the Board since we had not included numbers for attendance at committee meetings, seminars, and other Board work. Ms. Sullivan noted that we lowered the amount requested for program 515 for the funding of the three defined benefit plans. We lowered the amount requested for the School retirement plan by \$1.2 million net. We lowered the Patrol amount by \$41,402. There was no change in the Judges amount. We have received word that the deficit request for the per diem amount had been approved as well as lower the dollar amount in program 515. We will have our budget hearing on Monday, January 30th, at 1:30 p.m.

Agenda Item 5 - Election of Officers: Ms. Sullivan acted as Chairperson during the election portion of the meeting. Mr. Rea moved to reelect Mr. Peters as Chairperson. Mr. Kahla seconded the motion. Mr. Rea moved that nominations be closed and unanimous ballot be cast for Mr. Peters. Mr. Kahla seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, J. Moeller, D. Blank, and R. Rea. Against: None. Mr. Peters passed. Motion carried.

Ms. Moeller nominated Mr. Blank as Vice Chairperson. Mr. Rea seconded the motion. Mr. Rea moved that nominations be closed and unanimous ballot be cast for Mr. Blank.

Ms. Moeller seconded the motion. Members voted as follows: For: M. Shepard, C. Peters, J. Moeller, R. Rea, and D. Kahla. Against: None. Mr. Blank passed. Motion carried.

Ms. Moeller nominated Ms. Sullivan as Secretary for the Board. Mr. Blank seconded the motion. Mr. Rea moved that nominations be closed and unanimous ballot be cast for Ms. Sullivan. Mr. Kahla seconded the motion. Members voted as follows: For: C. Peters, J. Moeller, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Officers for the coming year are Charles Peters, Chair; Denis Blank, Vice Chair; Anna Sullivan, Secretary.

Agenda Item 6 - Legislative Update: Mr. Schaefer stated that the Board was provided with copies of the bills entered so far. Tomorrow will be the first bill hearing for the Retirement Committee. . LB 1020, which deals with a 30-year amortization period, and LB 1021, which deals with the County and State plans going to immediate participation will be heard. LB 1021 also proposes to change the State contribution rate to a straight 4.8% rather than the current rate of 4.33% until \$864 has been contributed, then changing to 4.8%. Hearings on LB 1019 and 1140 (cash balance dividends) will be held on January 31st. LB 1022 (Northern Ireland investments) and LB 1023 hearing will be February 8th. LB 1023 deals with the District Health Departments being able to participate in the county plans. LB 1142 will be heard on February 22, dealing with definition of compensation in the school employees' retirement plan. On the 15th of March the Investment Council and the PERB present their annual reports to the Legislature.

Ms. Moeller noted there was a large amount of discussion on LB 1023 at the NACO legislative hearing on Friday. There may be complications with inter-local agreements that would need to be taken into consideration. Mr. Schaefer explained the background behind this and stated this would be handled through the district health plan. Ms. Sullivan or Mr. Schaefer will contact Larry Dix at NACO regarding this matter.

Mr. Schaefer then provided a summary of the legislative bills

Mr. Rea moved that the PERB Board go on record in opposition to the paragraph on page 40 of LB 1019, section 10, dealing with the ability to seek enhancement of plan benefits, lines 6 through 9 on page 40. Ms. Moeller seconded the motion.

Mr. Hayes stated this wording does not preclude the Board from taking a position, but not as a trustee of that plan. Mr. Rea stated he did not see the purpose of this language. If there is no effect he did not see a reason to put the language in.

Mr. Hayes stated he believes the intent of the language is signal to member groups how far they can push the board.

Ms. Sullivan stated she thinks it is important that we know we are fiduciaries of the plan. We are to administer the plan and the laws as the Legislature and Governor have decided. We will be in role of suggesting for ease of administration.

Mr. Blank offered that we direct testimony at the hearing to be delivered in a neutral capacity, but to point out that there was a great deal of discussion and the Board questions the need for the addition of this language. Ms. Moeller seconded the motion.

Roll call on the amendment to the motion: Members voted as follows: For: J. Moeller, D. Blank, R. Rea, D. Kahla, M. Shepard, and C. Peters. Against: None. Motion carried.

Roll call on the amended motion: Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, C. Peters, and J. Moeller. Against: None. Motion carried.

Mr. Schaefer has been informed that LB 366 and LB1019 will be designated as priority bills for the Retirement Committee. Ms. Sullivan stated she will testify on LB 1021 regarding the affects on the administrative benefit because of the immediate participation and the benefit of the same contribution rate for everyone.

Ms. Moeller stated she would like to see the State and County rates in line with each other. These two plans are both under providing retirees an adequate retirement. Part of the Board's fiduciary responsibilities is to look out for the participant. This will help to bring State employees closer up to having an adequate retirement.

Mr. Rea moved to support the provisions of the bills that relate to enrollment of individuals and remain neutral on portions that require additional contributions. Mr. Shepard seconded the motion. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, C. Peters, J. Moeller, and D. Blank. Against: None. Motion carried.

The Board took a break at 12:00 p.m. and reconvened at 12:17 p.m.

Agenda Item 7 - Cash Balance Dividend Attorney General Opinions and Resolution to Grant Retroactive Dividend to Inactive and Retired Members: Mr. Schaefer reported we have received an Attorney General Opinion, one requested by the Auditor of Public Accounts, who questioned authority of the Board regarding granting a dividend in 2003 and 2004. The Attorney General's opinion agreed that the Board had authority to grant a dividend that did not exceed the 90% threshold. The second opinion requested by Senator Beutler dealt with granting a dividend to members who maintain an account balance but are no longer employees of the State. The Attorney General has said that members who were employed at that time were eligible to receive the dividend. Ms. Sullivan stated in light of the recent Attorney General's opinion, #06004, dated January 9, 2006, the Board direct her to begin the process of identifying each State and County employee who did not receive a Cash Balance dividend granted in 2003 and in 2004, but who should have, according to the criteria identified in the opinion. This process would be to include a cost calculation to be determined with the assistance of the actuary as part of the annual actuarial valuation results for the Cash Balance benefits; to seek to complete this process and issue the dividend retroactively, including interest, by the end of April 2006 or upon completion of the actuarial valuation, whichever is later.

Mr. Blank moved to adopt the language Ms. Sullivan just read. Ms. Moeller seconded the motion. Mr. Rea asked if the Board dividend policy would need to be amended, which it will. Roll call on the motion was taken. Members voted as follows: For: D. Kahla, M. Shepard, C. Peters, J. Moeller, D. Blank, and R. Rea. Against: None. Motion carried.

Mr. Rea asked that Ms. Sullivan provide a revised Dividend Policy, Policy No. 10, to the February PERB Meeting for the Board's review.

Marv Kanne requested to address the Board regarding this matter. He stated he has worked for the State for 20 years. He thanked the Board for passing this amendment and stated that his questions were essentially answered through the discussion and passing of the motion.

Investment Council Update: Ms. Kontor stated the Investment Council has not met since the last PERB meeting. They do not have the December 31, 2005, numbers yet. Wilshire 5000 for the year ending December 31 was up 6.4%. The ACWI ex-U.S. was up 16.6% and the Lehman Ag was up 2.43% for the year 2005. The market continues to be volatile.

Ms. Kontor stated they are making progress on a new State Investment Officer. They did phone conference calls and are down to six applicants. Interviews will be held next Monday and the search committee will take two or three individuals to the Investment Council on February 6th for the Council to make the final decision.

Agenda Item 9 - Director's Report: Ms. Sullivan indicated one of the issues staff have been focusing on is the state income tax withholding for the retiree benefits. The law change required notification to all retired plan members notifying them if they had federal withholding they needed to have state withholding if they were a Nebraska resident.

Ms. Sullivan mentioned the Technology Report and a letter she has sent to the Retirement Committee and Appropriations Committee to keep them current on our progress. There has been progress made. We brought in a vendor from California and have had Covansys provide a demonstration on migrating from Forte to Java. We also brought in people from NITC for advice. This may impact our budget for 2006-07.

The School, Judges, and Patrol audit report will be coming out by the end of this week. The audit staff person that headed the audit will be present at the February PERB Meeting to present an overview of the report.

Ms. Sullivan reported that she has been meeting with each of the areas in the office, looking back at 2005 and ahead at 2006 and goals for the coming year. She has received feedback, one of which is the need for more training.

She received a phone call from the Public Broadcasting System from Washington D.C. about a story on retirement plans. He is interested in what we do with our pre-retirement education to members and the uniqueness with our experience with Defined Benefit plans and Defined Contribution plans in Nebraska. He will be here this coming week and would like to tape one of our seminars, but there is no seminar planned for this week. He will probably do some interviews with retirees. She will keep the Board posted on how this proceeds.

Ms. Moeller moved to accept the Director's report. Mr. Rea seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, C. Peters, J. Moeller, D. Blank, and R. Rea. Against: None. Motion carried.

Agenda Item 10 - Chairperson's Comment: Mr. Peters encouraged the Board members to attend education sessions available around the country.

He also stated it is hard for him to comprehend being held responsible for errors made by employers. He suggested that the School Boards ought to be supervised or reports be filtered through the Department of Education. If we could have all of the data filtered through the Department of Education and held responsible for errors, then it could be assumed that the information that comes here would be accurate. Mr. Rea noted we have no authority to enforce compliance for any employer who makes errors that are found in either State audits or audits that are conducted by NPERS.

Agenda Item 11 - Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 12 - Recognize Service of Julia Moeller, Adams County Treasurer and County Employee: Mr. Peters announced that Julia Moeller's term on the Board has expired. We are sorely going to miss her. Ms. Moeller stated it has been joy and privilege for her to serve on the Board. Ms. Sullivan presented Ms. Moeller with a plaque and Admiralship for the Great State of Nebraska.

Agenda Items 13 and 14 - Executive Session: A 1:05 p.m., Ms. Moeller moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing disability applications and legal updates. Motion was seconded by Mr. Blank. Members voted as follows: For: M. Shepard, C. Peters, J. Moeller, D. Blank, R. Rea, and D. Kahla. Against: None. Motion carried.

At 1:42 p.m., Ms. Moeller moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Kahla. Members voted as follows: For: C. Peters, J. Moeller, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Mr. Rea moved for approval of the disability applications of B. Brecks, J. Cuyar, M. Walker, and M. Graham. Ms. Moeller seconded the motion. Members voted as follows: For: J. Moeller, D. Blank, R. Rea, D. Kahla, M. Shepard, and C. Peters. Against: None. Motion carried.

Mr. Rea moved that the disability application of A. Lyon be denied. Mr. Blank seconded the motion. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, C. Peters, and J. Moeller. Against: None. Motion carried.

Future Meetings/Agendas: The next meeting will be held on Monday, February 27, 2006, at 8:30 a.m., in the TierOne Community Meeting Room at 1221 N Street. Items on the agenda will include the School, Judges, and Patrol Audit report, legislative update, technology update, Internal Auditor annual report, draft of annual report to the Legislature, and the recordkeeping contract for State and County Deferred Compensation. The bids are due February 1, 2006. Committee assignments will need to be done at the next meeting.

Mr. Rea suggested having an educational program for state senators regarding the defined benefit plans for those senators that are new or those that do not understand the plans. He suggested putting together an education packet for the freshman senators. He also suggested it would be useful to show how much stays in the state, county by county, which would be beneficial in terms of economic development for the state.

Adjournment: Mr. Blank moved that the meeting adjourn. Motion was seconded by Mr. Rea. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, C. Peters, J. Moeller, and D. Blank. Against: None. Motion carried.

The meeting adjourned at 1:57 p.m.

Anna J. Sullivan
Director